

**HILLMAN TOWNSHIP
BASIC FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2008**

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INDEPENDENT AUDITOR'S REPORT

September 15, 2008

Township Board
Hillman Township
Hillman, Michigan 49746

I have audited the accompanying financial statements of the governmental activities, the business type activity, each major fund and the aggregate remaining fund information of Hillman Township, Montmorency County, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hillman Township's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, based on my audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activity, and each major fund, and the aggregate remaining fund information of Hillman Township, as of March 31, 2008, and the respective changes in financial position and cash flows, where applicable thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

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September 15, 2008
Township Board
Hillman Township

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hillman Township's basic financial statements. The introductory section and non-major fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The non-major fund financial statements have been subjected to the auditing procedures applied by me in the audit of the basic financial statements and, in my opinion, based on my audit are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Thomas R. Zick, CPA P.C.", with a stylized flourish at the end.

THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

HILLMAN TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

THE TOWNSHIP AS A WHOLE

The Township's combined net assets increased 6.3% from a year ago – increasing by \$69,947. As we look at the governmental activities you can see the increase occurred throughout the entire group of governmental funds.

This year the Township has seen minor growth in new residential construction.

In a condensed format, the table below shows a calculation of the net assets as of the current balance sheet date. No comparative figures are shown because the Township is only audited every other year.

	Governmental Activities	Business Type Activity	Total
Current Assets	\$ 573,753	\$ 8,718	\$ 582,471
Noncurrent Assets	295,759	317,731	613,490
Total Assets	869,512	326,449	1,195,961
Current Liabilities	5,497	2,500	7,997
Total Liabilities	5,497	2,500	7,997
Net Assets			
Invested in Capital Assets			
- Net of Debt	295,759	317,731	613,490
Restricted	110,540	-	110,540
Unrestricted	457,716	6,218	463,934
Total Net Assets	\$ 864,015	\$ 323,949	\$ 1,187,964

Unrestricted net assets – the part of net assets that can be used to finance day to day operations ended the year at \$463,934.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following table shows the changes in the net assets as of the current year. The Township is only audited every other year so no comparative figures are available.

	Governmental Activities	Business Type Activity	Total
Program Revenues			
Charges for Services	\$ 47,521	\$ 83,891	\$ 131,412
Operating Grants and contributions	8,909	-	8,909
Capital Grants and contributions	-	-	-
General Revenues			
Property Taxes	145,864	-	145,864
State Shared Revenues	108,842	-	108,842
Unrestricted Investment Earnings / Other Revenue	21,252	-	21,252
Transfers In (Out)	(44,129)	44,129	-
Total Revenues	288,259	128,020	416,279
Program Expenses			
General government	144,970	109,158	254,128
Public Safety	67,129	-	67,129
Public Works	5,920	-	5,920
Recreation and Culture	19,155	-	19,155
Total Expenses	237,174	109,158	346,332
Change in Net Assets	\$ 51,085	\$ 18,862	\$ 69,947

The Township's net assets continue to remain healthy. The total revenues grew slightly faster than inflation while we were able to hold expenses in line.

GOVERNMENTAL ACTIVITIES

The Township's total governmental revenues were \$332,388.

During the year the Township has worked hard on getting the Clean Water Ordinance completed. After implementing it ten years ago, we have so far, obtained 99% compliance and will be expecting 100% by year end. There has been a civil infractions officer appointed by the Township board to enforce township ordinances. A recycling drop off center has been implemented and is currently picking up recyclables at the Community Center every week.

THE TOWNSHIP'S FUNDS

Our analysis of the Township's major funds begins on page 7 following the Township-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the township as a whole. The township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2007/08 include the General Fund and Fire Fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

THE TOWNSHIP'S FUNDS (CONTINUED)

The General fund pays for most of the Township's governmental services. The most significant expenditures are assessing at \$23,760, transfer to building Authority at \$44,129.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Township board amended the budget several times. There were only minor budget variations at the year end. The General Fund Balance increased by \$68,143 during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

At March 31, 2008 the Township had \$613,490 invested in net capital assets in a broad range of capital assets, including buildings, park equipment, and other office equipment.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Township's budget for 2008/09 calls for no increase in property tax rates. Because of the impact of Proposal A, however, the Township needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions.

With the additional parcels added to the assessment roll and through the continued growth in our tax base, we do not anticipate any changes to our tax rates for 2008-09. We continue to watch our budget closely.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the supervisor or clerk at (989) 742-3096 or visit the Township office located in Hillman, Michigan.

HILLMAN TOWNSHIP
STATEMENT OF NET ASSETS
MARCH 31, 2008

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash demand, time deposits, and investments	\$ 559,478	\$ 8,718	\$ 568,196
Receivables			
Taxes	12,572	-	12,572
Administration Fee	1,703	-	1,703
Capital assets			
Land	128,164	26,000	154,164
Other capital assets, net of depreciation	<u>167,595</u>	<u>291,731</u>	<u>459,326</u>
 TOTAL ASSETS	 <u>869,512</u>	 <u>326,449</u>	 <u>1,195,961</u>
 LIABILITIES			
Accrued liabilities	<u>5,497</u>	<u>2,500</u>	<u>7,997</u>
 TOTAL LIABILITIES	 <u>5,497</u>	 <u>2,500</u>	 <u>7,997</u>
 NET ASSETS			
Invested in capital assets, net of related debt	295,759	317,731	613,490
Restricted for:			
Fire Fund	72,557	-	72,557
Cemetery Fund	37,983	-	37,983
Unrestricted	<u>457,716</u>	<u>6,218</u>	<u>463,934</u>
 TOTAL NET ASSETS	 <u>\$ 864,015</u>	 <u>\$ 323,949</u>	 <u>\$ 1,187,964</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2008

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants	Governmental Activities	Business Type Activity	Total
Primary Government							
Governmental Activities							
General Government	\$ 144,970	\$ 44,066	\$ 8,909	\$ -	\$ (91,995)	\$ -	\$ (91,995)
Public Safety	67,129	3,455	-	-	(63,674)	-	(63,674)
Public Works	5,920	-	-	-	(5,920)	-	(5,920)
Recreation and Culture	19,155	-	-	-	(19,155)	-	(19,155)
Total Governmental Activities	237,174	47,521	8,909	-	(180,744)	-	(180,744)
Business Type Activity							
Building Authority	109,158	83,891	-	-	-	(25,267)	(25,267)
Total Primary Government	\$ 346,332	\$ 131,412	\$ 8,909	\$ -	(180,744)	(25,267)	(206,011)
General revenues:					Governmental Activities	Business Type Activities	Total
Taxes:							
Property taxes levied for general operating purposes					90,138	-	90,138
Property taxes levied for fire operation					55,726	-	55,726
State Revenue Sharing not restricted to specific purposes					108,842	-	108,842
Interest and royalty earnings / other revenue					15,096	-	15,096
Miscellaneous Income					6,156	-	6,156
Transfers					(44,129)	44,129	-
Total general revenues and taxes					231,829	44,129	275,958
Change in net assets					51,085	18,862	\$ 69,947
Net assets, beginning of year					812,930	305,087	1,118,017
Net assets, end of year					\$ 864,015	\$ 323,949	\$ 1,187,964

See Notes to Financial Statements

HILLMAN TOWNSHIP
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2008

	GENERAL FUND	FIRE FUND	NON-MAJOR FUND CEMETERY FUND	TOTAL
ASSETS				
Cash and Investments	\$ 453,298	\$ 68,197	\$ 37,983	\$ 559,478
Receivables				
Taxes	7,112	5,460	-	12,572
Administration Fee	<u>1,703</u>	<u>-</u>	<u>-</u>	<u>1,703</u>
TOTAL ASSETS	<u>\$ 462,113</u>	<u>\$ 73,657</u>	<u>\$ 37,983</u>	<u>\$ 573,753</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accrued Liabilities	<u>\$ 4,397</u>	<u>\$ 1,100</u>	<u>\$ -</u>	<u>\$ 5,497</u>
TOTAL LIABILITIES	<u>4,397</u>	<u>1,100</u>	<u>-</u>	<u>5,497</u>
FUND BALANCES				
Reserved	-	72,557	37,983	110,540
Unreserved	<u>457,716</u>	<u>-</u>	<u>-</u>	<u>457,716</u>
TOTAL FUND BALANCES	<u>457,716</u>	<u>72,557</u>	<u>37,983</u>	<u>568,256</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 462,113</u>	<u>\$ 73,657</u>	<u>\$ 37,983</u>	<u>\$ 573,753</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
MARCH 31, 2008

Fund Balances - Total Governmental Funds	\$ 568,256
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital assets - at Cost	378,587
Accumulated Depreciation	<u>(82,828)</u>

Net Assets of Governmental Activities	<u>\$ 864,015</u>
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See Notes to Financial Statements

HILLMAN TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2008

	GENERAL FUND	FIRE FUND	NON-MAJOR FUND CEMETERY FUND	TOTAL
REVENUES				
Taxes	\$ 90,138	\$ 55,726	\$ -	\$ 145,864
State Sources	111,751	-	-	111,751
Other Governments	-	-	6,000	6,000
Charges for Services	3,455	-	9,400	12,855
Interest Income / Royalty Income	13,177	750	1,169	15,096
Administration Fee	34,666	-	-	34,666
Other Revenue	6,006	-	150	6,156
	<u>259,193</u>	<u>56,476</u>	<u>16,719</u>	<u>332,388</u>
TOTAL REVENUES				
EXPENDITURES				
General Government	119,735	-	23,596	143,331
Public Safety	6,257	60,872	-	67,129
Public Works	5,920	-	-	5,920
Recreation & Culture	9,009	-	-	9,009
Capital Outlay	-	-	-	-
	<u>140,921</u>	<u>60,872</u>	<u>23,596</u>	<u>225,389</u>
TOTAL EXPENDITURES				
REVENUES OVER (UNDER)				
EXPENDITURES	<u>118,272</u>	<u>(4,396)</u>	<u>(6,877)</u>	<u>106,999</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfer In	-	-	6,000	6,000
Operating Transfer Out	(50,129)	-	-	(50,129)
	<u>(50,129)</u>	<u>-</u>	<u>6,000</u>	<u>(44,129)</u>
Total Other Financing (Uses)				
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	68,143	(4,396)	(877)	62,870
FUND BALANCES, BEGINNING OF YEAR	<u>389,573</u>	<u>76,953</u>	<u>38,860</u>	<u>505,386</u>
FUND BALANCES, END OF YEAR	<u>\$ 457,716</u>	<u>\$ 72,557</u>	<u>\$ 37,983</u>	<u>\$ 568,256</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
FOR THE YEAR ENDED MARCH 31, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ 62,870
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Amounts reported for *governmental activities* in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in
the statement of activities, the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense.

Add - Capital Outlay	-
Deduct - Depreciation Expense	<u>(11,785)</u>

Change in Net Assets of Governmental Funds	<u>\$ 51,085</u>
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See Notes to Financial Statements

HILLMAN TOWNSHIP
 PROPRIETARY FUND
 STATEMENT OF NET ASSETS
 MARCH 31, 2008

	ENTERPRISE FUND
	<u>BUILDING AUTHORITY</u>
ASSETS	
Current Assets	
Cash and Investments	\$ 8,718
Capital Assets	
Land, Building & Equipment - Net of Depreciation	<u>317,731</u>
 TOTAL ASSETS	 <u>326,449</u>
 LIABILITIES	
Accrued Liabilities	<u>2,500</u>
 TOTAL LIABILITIES, ALL CURRENT	 <u>2,500</u>
 NET ASSETS	
Investment in Capital Assets, Net of Related Debt	317,731
Unrestricted net assets	<u>6,218</u>
 TOTAL NET ASSETS	 <u><u>\$ 323,949</u></u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
 PROPRIETARY FUND
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET ASSETS
 MARCH 31, 2008

	ENTERPRISE FUND
	BUILDING AUTHORITY
OPERATING REVENUES	
Rentals	\$ 46,687
Merchandise	9,773
Roller Skating	27,100
Miscellaneous	<u>331</u>
TOTAL OPERATING REVENUES	<u>83,891</u>
OPERATING EXPENSES	
Wages	33,970
Fringe Benefits	2,599
Banquet Supplies / Concessions	9,076
Insurance	2,298
Supplies	687
Services	7,748
Repair & Maintenance	11,084
Utilities	15,664
Depreciation Expense	<u>26,032</u>
TOTAL OPERATING EXPENSES	<u>109,158</u>
OPERATING INCOME (LOSS)	(25,267)
NONOPERATING REVENUES (EXPENSES)	
Township Contribution	<u>44,129</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>44,129</u>
NET INCOME (LOSS)	18,862
NET ASSETS, BEGINNING OF YEAR	<u>305,087</u>
NET ASSETS, END OF YEAR	<u>\$ 323,949</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED MARCH 31, 2008

	ENTERPRISE FUND BUILDING AUTHORITY
Cash Flows from Operating Activities:	
Cash received from customers	\$ 82,297
Cash payments for goods and services	(46,557)
Cash payments to employees and for fringes	<u>(36,569)</u>
Net Cash Provided (Used) by Operating Activities	<u>(829)</u>
Cash flows From Capital and Related Financing Activities:	
Acquisition of capital assets	(40,224)
Township contribution	<u>44,129</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>3,905</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,076
Cash and Cash Equivalents, Beginning of Year	<u>5,642</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 8,718</u></u>
Operating Income (Loss)	\$ (25,267)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	26,032
Change in Assets and Liabilities	
Increase (Decrease) in Accrued Liabilities	<u>(1,594)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (829)</u></u>

See Notes to Financial Statements

**HILLMAN TOWNSHIP
STATEMENT OF FIDUCIARY FUND NET ASSETS
AGENCY FUNDS
MARCH 31, 2008**

ASSETS

Cash	\$ -0-
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<u>TOTAL ASSETS</u>	<u>\$ -0-</u>
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LIABILITIES

Due to Other Governmental Units	\$ -0-
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<u>TOTAL LIABILITIES</u>	<u>\$ -0-</u>
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See Notes to Financial Statements

HILLMAN TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Hillman Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township.

REPORTING ENTITY

The General Law Township is located in Montmorency County, Michigan and operated under an elected Township Board consisting of a Supervisor, Treasurer, Clerk, and two Trustees. This Board and its employees provide services to its residents in areas such as fire protection, ambulance service, voter registration, maintenance and operation of township facilities, planning and zoning.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Township's reporting entity, and which organizations are legally separate, component units of the Township. Based on the application of the criteria, the Township does not contain any component units.

JOINTLY GOVERNED ORGANIZATION

The Hillman-Rust Cemetery Commission is operated under a joint agreement with Rust Township. The Commission is reported as a non-major fund in the Hillman Township report.

The Hillman Fire and Ambulance Department is a jointly operated department composed of Hillman Township, Village of Hillman, Montmorency Township and Rust Township. It is audited separately from any of the governmental entities. A copy of a financial statement and audit report would be available at the Fire Department offices located at 131 W. Third Street, Hillman, Michigan 49746. The telephone number is 989-742-3221. The Township's contribution to the fire department for the year was \$60,872.

TOWNSHIP-WIDE AND FUND FINANCIAL STATEMENTS

The township-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Township's Township-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the township-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

HILLMAN TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Township-Wide Financial Statements - The township-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the township-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid/revenue sharing.

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state revenue sharing, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Township.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund.

Fire Fund – This is a special revenue fund used to record revenue and expenditures related to the fire department which is a joint department with other governmental entities.

The Township reports only one business type activity fund, the Building Authority Fund, which is an enterprise fund and is reported as a major fund.

Additionally, the Township reports the following governmental fund as non major fund, Special Revenue Cemetery Fund.

Fiduciary Funds – The Township maintains an Agency Fund to record the tax collection transactions. The funds are segregated and used to record the tax collection and distribution of taxes to the various taxing entities.

HILLMAN TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Investments – Cash and investments include cash on hand, demand deposits, and savings accounts and certificates of deposit. There are no investments at March 31, 2008.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.”

All property tax receivables are shown net of an allowance for uncollectible amounts. The Township considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes are levied and become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county delinquent tax rolls. The County operates a delinquent tax revolving fund and normally pays to the Township all current taxes annually prior to June 30.

Capital Assets – Capital assets, which include land, land improvements, buildings, and equipment, are reported in the applicable governmental column in the Township-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$400 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Township does not have infrastructure-type assets.

Buildings and equipment are depreciated using the straight-line method over the following useful lives:

Land improvements	15-20 years
Buildings and building additions	15-40 years
Furniture and other equipment	5-15 years

Long-Term Obligations – In the Township-wide financial statements long-term debt and other long-term obligations would be reported as liabilities in the statement of net assets. Hillman Township has no long term debt.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Date – Comparative data is not included in the Township’s financial statements, because this is the first year of implementation for GASB #34.

Accounting Change – Effective April 1, 2007, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB No. 34) along with all related statements and interpretations. Changes to the Township’s financial statements as a result of GASB No. 34 are as follows:

- § A Management’s Discussion and Analysis (MD&A) section providing analysis of the Township’s overall financial position and results of operations has been included.

HILLMAN TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- § Township-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Township's activities have been provided.
- § Capital assets in the governmental activities column of the statement of net assets includes assets totaling \$295,759 not previously accounted for by the Township
- § The fund financial statements focus on major funds rather than fund types.

BUDGETS AND BUDGETARY ACCOUNTING

All funds are under the direct supervision and budgetary control of the Township board. In accordance with PA 621 of 1978, the Uniform Budgeting and Accounting Act as amended, the Township board adopts a budget for the general fund and the fire special revenue fund. Any budget violations are disclosed in the audits of the Township's financial statements as required by law.

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The budgets, as adopted, lapse after the close of the fiscal year, and a new budget is adopted for the ensuing year. The budget for Hillman Township, as presented in the accompanying financial statements is the amended budget as well as the original adopted budget for the funds required to be budgeted under state statute.

NOTE 2- STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at the fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Township to have its budget in place by April 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits Townships to amend their budgets during the year.

Excess Expenditures Over Appropriations in Budgeted Funds - The Township is required under Public Act 621 of 1978 to adopt (pass) a budget (General Appropriations Act) for the General Fund and Individual Special Revenue Funds. The Township complied in all areas. The following expenditure line items exceeded budgeted amounts

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Operating Transfer Out	\$ 49,200	\$ 50,129	\$ (929)

HILLMAN TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 3 - CASH AND INVESTMENTS

The captions on the combined balance sheet related to cash and investments are as follows:

	<u>Imprest Cash</u>	<u>Cert of Dep</u>	<u>Cash/checking and Savings</u>	<u>Total</u>
Government Activities	\$ -0-	\$ 190,719	\$ 368,759	559,478
Business Type Activities	150	-0-	8,568	8,718
Agency Funds	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
	<u>\$ 150</u>	<u>\$ 190,719</u>	<u>\$ 377,327</u>	<u>\$ 568,196</u>

Deposits - At year-end, the carrying amount of the Township's deposits was \$568,046 and the bank balance was \$572,892 was classified as to risk as follows.

Insured	\$ 375,515
Uninsured – Uncollateralized	<u>192,531</u>
	<u>\$ 568,046</u>

Investments – Act 217, PA 1982, authorized the Township to deposit and invest in the following:

- a. Bonds, bills, and other direct obligations of the United States or its agencies.
- b. Certificates of deposit and other savings instruments issued by a federally insured bank, savings and loan or credit union maintaining an office in Michigan.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Mutual Funds comprised of investments which are legal for direct investment by local units of government in Michigan.
- e. U.S. Government or federal agency obligation repurchase agreements.
- f. Bankers' acceptance of United States banks

The Township Board is authorized to designate depositories for Township funds, and the funds are invested in accordance with State of Michigan statutory authority.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). There were no investments at March 31, 2008.

Interest Rate Risk

The Township has not adopted a policy that indicates how the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time. There were no investments at March 31, 2008.

HILLMAN TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The Township has not adopted a policy that indicates how the Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. There were no investments at March 31, 2008.

Custodial Credit Risk

The Township has not adopted a policy that indicates how the Township will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

The Township Board is authorized to designate depositories for Township funds, and the funds are invested in accordance with State of Michigan statutory authority.

NOTE 4 - RISK MANAGEMENT

The Township purchases insurance in the Michigan Township Participating Plan for its liability, property, automobile coverage, and workman's compensation.

The Michigan Township Participating Plan is an authorized Michigan Self-Insurance Association and Hillman Township is accepted as a member in this plan organized under Public Act 138 of 1982. A substantial number of Michigan townships participate in this coverage.

NOTE 5 – CAPITAL ASSETS

Capital asset activity of the Township's governmental activities for the current year was as follows:

	Balance <u>March 31, 2007</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>March 31, 2008</u>
Capital assets not being depreciated:				
Land	\$ 128,164	\$ -	\$ -	\$ 128,164
Capital assets being depreciated:				
Building and building improvements	113,448	-	-	113,448
Land Improvements	23,442	-	-	23,442
Equipment	117,949	-	4,416	113,533
Subtotal	<u>254,839</u>	<u>-</u>	<u>4,416</u>	<u>250,423</u>
Accumulated depreciation	<u>75,459</u>	<u>11,785</u>	<u>4,416</u>	<u>82,828</u>
Net capital assets being depreciated	<u>179,380</u>	<u>(11,785)</u>	<u>-</u>	<u>167,595</u>
Net governmental capital assets	<u>\$ 307,544</u>	<u>\$ (11,785)</u>	<u>\$ -</u>	<u>\$ 295,759</u>

HILLMAN TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Capital asset activity of the business type activities for the current year was as follows:

	Balance <u>March 31, 2007</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>March 31, 2008</u>
Capital assets not being depreciated:				
Land	\$ 26,000	\$ -	\$ -	\$ 26,000
Capital assets being depreciated:				
Building and building improvements	348,316	-	-	348,316
Capital Improvements	134,480	7,499	-	141,979
Equipment	<u>336,780</u>	<u>32,725</u>	-	<u>369,505</u>
Subtotal	<u>819,576</u>	<u>40,224</u>	-	<u>859,800</u>
Accumulated depreciation	<u>542,037</u>	<u>26,032</u>	-	<u>568,069</u>
Net capital assets being depreciated	<u>277,539</u>	<u>14,192</u>	-	<u>291,731</u>
Net business type capital assets	<u>\$ 303,539</u>	<u>\$ 14,192</u>	<u>\$ -</u>	<u>\$ 317,731</u>

Depreciation expense was charged to activities of the Township as follows:

Governmental Activities:	
General Government	\$ 1,639
Recreation and Culture	<u>10,146</u>
Total	<u>\$ 11,785</u>
Business Type Activities:	
Building Authority	<u>\$ 26,032</u>
Total	<u>\$ 26,032</u>

REQUIRED SUPPLEMENTARY INFORMATION

HILLMAN TOWNSHIP
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, OTHER SOURCES (USES)
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	\$ 91,400	\$ 91,400	\$ 90,138	\$ (1,262)
State Sources	110,900	110,900	111,751	851
Other Governments	-	-	-	-
Charges for Services	1,700	1,700	3,455	1,755
Interest Income	2,500	2,500	13,177	10,677
Administration Fee	22,000	22,000	34,666	12,666
Other	15,200	15,200	6,006	(9,194)
TOTAL REVENUES	243,700	243,700	259,193	15,493
EXPENDITURES				
General Government:				
Township Board	57,600	57,600	41,074	16,526
Supervisor	8,700	8,700	7,862	838
Clerk	14,700	14,700	12,875	1,825
Board of Review	1,000	1,000	727	273
Treasurer	18,250	18,250	16,860	1,390
Assessor	25,800	23,760	23,760	-
Election	1,500	1,500	774	726
Community Center	16,000	16,000	15,803	197
EDC	100	100	-	100
Capital Outlay	-	-	-	-
Total General Government	143,650	141,610	119,735	21,875
Public Safety:				
Emergency Preparedness	200	200	-	200
Planning and Zoning	7,700	7,700	6,257	1,443
Total Public Safety	7,900	7,900	6,257	1,643
Public Works				
Roads	19,850	19,850	5,920	13,930
Total Public Works	19,850	19,850	5,920	13,930
Recreation & Culture:				
Parks	10,000	10,000	5,464	4,536
Airport	500	500	-	500
Library	6,000	5,133	3,545	1,588
Total Recreation & Culture	16,500	15,633	9,009	6,624
TOTAL EXPENDITURES	187,900	184,993	140,921	44,072
REVENUES OVER (UNDER) EXPENDITURES	55,800	58,707	118,272	59,565
OTHER FINANCING (USES)				
Operating Transfer Out	(49,200)	(49,200)	(50,129)	(929)
Total Other Financing (Uses)	(49,200)	(49,200)	(50,129)	(929)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	6,600	9,507	68,143	58,636
FUND BALANCES, BEGINNING OF YEAR	389,573	389,573	389,573	-
FUND BALANCES, END OF YEAR	\$ 396,173	\$ 399,080	\$ 457,716	\$ 58,636

See Notes to Financial Statements

HILLMAN TOWNSHIP
FIRE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	\$ 54,400	\$ 54,400	\$ 55,726	\$ 1,326
Interest	<u>-</u>	<u>-</u>	<u>750</u>	<u>750</u>
TOTAL REVENUES	<u>54,400</u>	<u>54,400</u>	<u>56,476</u>	<u>2,076</u>
EXPENDITURES				
Public Safety				-
Contractual Services	<u>61,000</u>	<u>61,000</u>	<u>60,872</u>	<u>128</u>
TOTAL EXPENDITURES	<u>61,000</u>	<u>61,000</u>	<u>60,872</u>	<u>128</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(6,600)</u>	<u>(6,600)</u>	<u>(4,396)</u>	<u>2,204</u>
FUND BALANCES, BEGINNING OF YEAR	<u>76,953</u>	<u>76,953</u>	<u>76,953</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ 70,353</u>	<u>\$ 70,353</u>	<u>\$ 72,557</u>	<u>\$ 2,204</u>



Thomas R. Zick CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

P.O. BOX 149, 2947 MANTZ STREET
LEWISTON, MICHIGAN 49756
TELEPHONE: (989) 786-4032
FAX: (989) 786-4032

INTERNAL CONTROL LETTER

September 15, 2008

Township Board
Hillman Township
Hillman, Michigan 49746

In planning and performing my audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hillman Township as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, I considered Hillman Township's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hillman Township's internal control. Accordingly, I do not express an opinion on the effectiveness of Hillman Township's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control that I consider to be material weaknesses as defined above. However, I identified the following deficiency in internal control that I consider to be a significant deficiency.

Establishment and maintenance of internal control over the financial reporting process as defined by Statement on Auditing Standards Number 112 requires management to prepare annual financial statements in accordance with GASB Statement Number 34. The Township's auditor prepares these financial statements.

This communication is intended solely for the information and use of management, the Township Board, and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Thomas R. Zick CPA, P.C.
Certified Public Accountant



Thomas R. Zick CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

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REPORT TO MANAGEMENT / TOWNSHIP BOARD

September 15, 2008

Township Board
Hillman Township
Hillman, Michigan 49746

I have audited the financial statements of Hillman Township for the year ended March 31, 2008, and have issued my reports thereon dated September 15, 2008. Professional standards require that I provide you with the following information related to my audit.

My Responsibility Under U.S. Generally Accepted Auditing Standards

My responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. Generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because I did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me.

In planning and performing my audit, I considered Hillman Township's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. I also considered internal control over compliance with requirements that could have a direct and material effect on the financial statements.

As part of obtaining reasonable assurance about whether Hillman Township's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit. While my audit provides a reasonable basis for my opinion, it does not provide a legal determination of Hillman Township's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Hillman Township are described in Note 1 to the financial statements. I noted no transactions entered into by Hillman Township during the year that were both significant and unusual, and of which, under professional standards, I am required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Some accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience and past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. My conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Hillman Township's financial reporting process (that is, cause future financial statements to be materially misstated). All of the adjustments I proposed have been recorded by Hillman Township.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to my satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the course of my audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Hillman Township's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with me to determine that the consultant has all of the relevant facts. To my knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Hillman Township's auditors. However, these discussions occurred in the normal course of our professional relationship and my responses were not a condition to my retention.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

COMMENTS AND RECOMMENDATIONS

The following is a summary of my observations with suggestions for improvements I believe should be brought to your attention.

INTEREST REVENUE / CASH ACCOUNTS

A receipt should be written for all interest received, even if it is being added to a savings or certificate of deposit balance. This receipt would then be posted by the Clerk, so that all cash accounts can be reconciled to the monthly statements not just the checking account and these accounts should be reconciled to the ledger and between clerk and treasurer records.

BUDGET / BUDGET ADJUSTMENTS

The Township properly adopted the budget although the budget document should separate the Fire Fund from the General Fund.

The following line item exceeded the budget as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Operating Transfer Out	\$ 49,200	\$ 50,129	\$ (929)

Your budget / monthly reports are accurate and complete but could be more easily done by using your Quickbooks system package. By entering the budget information and creating a format for the budget to actual comparison report a monthly report could be generated which would agree to your accounting records.

STATE CHART OF ACCOUNTS

The state chart of accounts requires account numbers for each balance sheet, revenue, and expenditure account. In order to comply with state requirements for township accounting these numbers must be used. The Auditing Procedures Report that I must submit with each governmental audit specifically asks if the local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. I have to answer that question no because your general ledger does not include any account numbers. It is done by account name only. This is a repeat comment from prior years.

Page 4
September 15, 2008
Township Board
Hillman Township

Overall the records were coded properly and the Clerk and Treasurer reconciled the checking account timely and accurately. By recording the interest income on all of the other bank accounts, the Clerk's ledger and Treasurer's records will balance. We will assist your Clerk in posting the necessary journal entries at year end.

I would like to thank your Clerk and Treasurer for their assistance while I performed the audit.

This report is intended solely for the information and use of the Township Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Thomas R. Zick, CPA P.C.", written in a cursive style.

Thomas R. Zick CPA, P.C.
Certified Public Accountant

